SOCIO-ECONOMIC FORECASTS 1988-1993 CITY OF EDMONTON

- SUMMARY REPORT -

Prepared by:
City Forecast Committee
January 27, 1988

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SOCIO-ECONOMIC FORECASTS
1988-1993
CITY OF EDMONTON

Purpose

This report provides a summary forecast of major economic and social indicators for the years 1988 to 1993. The forecast will then be used as a guide for preparation of the 1989-1993 City departmental budget forecasts.

The Summary Report is the first step of the City Forecast Committee's annual forecasting and monitoring process. The next step is the preparation of a detailed forecast report for publication in May, 1988, followed by an update in October, 1988.

Assumptions Affecting the Forecasts

A series of assumptions have been made for the following external factors which are considered to have the most impact on the Alberta and Edmonton economies:

1) World Oil Prices

Oil prices rose through the first part of 1987, but declined in the later months, averaging about $19US per barrel for the year. Although OPEC appeared to be in disarray in December 1987 and had to exclude Iraq from their quota system, they are expected to restrict production in an effort to support the $18US per barrel price target. Nevertheless, trading on the spot market, shifting Middle-East politics and variations in demand will create volatility in oil prices for the next several years until OPEC can reassert greater control in the markets.

The forecast for West Texas Intermediate oil at Chicago, in nominal $US/barrel, is $20 for 1988, $21 for 1989 and rising to $30 by 1993. This represents about, on average, a 4% per year increase, after allowing for inflation, over the forecast period.

2) United States Economy

The U.S. economy is currently in a very fragile condition. The massive deficits of the federal government and the trade balance have created a weak American dollar and a crisis of confidence in the ability of the U.S. to sustain its expansionary policies. Clear evidence of the lack of confidence was the October 19, 1987 record stock market correction which has caused most forecasters to revise downward their forecasts of the U.S. economy for 1988. This forecast assumes 2% to 2.5% growth in 1988 and 1989, 3% to 3.5% growth per year thereafter. However, there will likely be a recession in the U.S. within the forecast period; the depth of that recession will depend on how Americans deal with their deficits.

3) Interest Rates and Inflation

Canadian interest rates and inflation are influenced by events in the United States. In the U.S., there presently exists a precarious balance between these two economic variables. In order to prolong the economic expansion, interest rates must be stable, but there are several forces working against stability. First, the weak American dollar is putting great pressure on the Federal Reserve Board to raise interest rates to attract foreign capital. Second, the weak American dollar is also expected to result in higher U.S. prices for foreign products, particularly Japanese goods. Such price increases could lead to inflationary pressures in the U.S. and also result in higher interest rates to dampen inflation. However, actions taken by the American and Canadian governments to reduce their budget deficits, together with the slowing of the economic growth in both countries and expected improvement in the U.S. trade deficit, are expected to relieve the upward pressure on interest rates. Therefore, interest rates are expected to trend down gradually over the forecast period.

4) Canada - U.S. Free Trade

Free trade is still an unknown quantity. The agreement, should it be enacted as proposed, has significant long term implications for Canada's competitive position in international markets. The thrust of the agreement is to reduce tariffs and trade barriers that are now used to protect a variety of industries, especially manufacturing, and move Canadians into a more market-oriented North American economy. Generally such a move is seen as positive for Canadian industries which have a competitive advantage (such as oil, gas and petrochemicals) and negative for industries without a competitive advantage (such as food processing and textiles). Theoretically, the consumer would benefit in almost all instances due to price reductions.

Impact of free trade on the Alberta economy is expected to be positive in the long run, particularly for the energy and petrochemical industries because removal of tariff should spur more investment in Alberta. The impact has not been addressed explicitly in this forecast in terms of job creation in Alberta. When information becomes available, the impact will be taken into consideration in future forecast.

Forecast Overview

Alberta's economy has been in the doldrums since the peak of the boom in 1981 when world oil prices began to unravel due to the fundamentals of supply and demand. Alberta has been making a painful adjustment over the last 6 years as manifested by high unemployment, bankruptcies, financial institution collapses and out-migration. On the other hand, this adjustment has made most remaining and new businesses leaner and more competitive and it has led to some diversification, particularly in the area of scientific and industrial research. However, the health of the oil and gas industry is still the driving force behind any sustained growth in the overall economy.

This forecast is based on a scenario in which OPEC manages the supply, and thus the price, of crude oil in a manner that increases their revenues and market share over the long run. This will allow for modest price increases as the world demand for oil increases at about 1% to 2% per year. Under this scenario, the oil and gas industry in Alberta will do reasonably well in terms of conventional production, crude bitumen production and gas exports, but new tarsands mining projects will need some form of government risk-sharing in order for construction to begin within the forecast horizon.

The following sections provide details of the forecasts:

1) Economic Forecasts

Canada

The Canadian gross national product (GNP) will grow by 2.5% in 1988 and will be 3% on average in the years 1989 - 1993. Inflation will be in the range of 4% to 5% throughout the forecast period. Unemployment will remain relatively high, 9% in 1988 falling to 8.5% by 1993. The Canadian dollar exchange rate is forecast to be in the range of $U.S. 0.75-$U.S. 0.78. However due to anticipation of a U.S. recession and stronger resource prices, the Canadian dollar could rise to as high as $U.S. 0.80 for a short period of time.

Alberta

Improved prices in oil, gas, petrochemicals and pulp and paper as well as continued government assistance in agriculture and diversification will contribute to better economic conditions in Alberta over the next 5 years. Alberta's gross domestic product (GDP) is expected to grow at 3% in 1988 and to grow at an average rate of 3% to 4% between 1989 and 1993. Barring another collapse in oil prices or a major retrenchment in consumer spending, Alberta should be able to avoid a recession over the forecast period.

Notwithstanding this positive economic climate, unemployment will remain relatively high throughout the forecast period at 9% to 10% as a result of continued high participation rates. It is expected that after losing over 100,000 people, over 5 consecutive years of net out-migration, this trend will reverse in 1988. Inflation will be the same as Canadian inflation.

Edmonton

Edmonton will follow the provincial trends over the forecast period. Both inflation and unemployment are expected to be slightly higher than the provincial averages. Inflation will be in the range of 4.5% to 5.5% since Edmonton is the center for the oil industry which will experience moderate real price gains. Unemployment will decline only gradually from 11% in 1988 to 9.5% by 1993 due to the very high labor participation rate of Edmontonians.

2) Population Forecasts

Population growth in Edmonton is expected to be modest, at a rate of approximately 1.3% per year, increasing the population from 576,000 persons in 1987 to 621,000 persons by 1993.

Population change within the City will result in the inner city continuing to lose people to the suburban areas.

3) Development Activity Forecasts

Building permit values are expected to be in the range of $480 million to $580 million in 1988. Over 1989 to 1993, permit values are expected to increase at approximately 7% per year, reaching $780 million to $880 million by 1993; however, these totals could be influenced by the timing of several major projects.

Total City housing starts in 1987 reached 2,363 units. Continued population growth, lower apartment vacancy rates and lower interest rates will combine to raise starts to 2,500 units in 1988 and to 4,000 units in 1993.

Residential servicing in 1988 will reach 1,785 single family lots, virtually unchanged from the number of lots serviced in 1987. Servicing will increase to 2,800 lots in 1989 and to 3,700 in 1993 in response to the increase in housing starts. No significant servicing of multi-family lots is anticipated because of an ample supply.

Industrial servicing activity will remain low for the forecast period, with 5 ha per year serviced over 1988 to 1993. Absorption will be 20 ha per year for the same period. The supply of serviced industrial land is large enough to handle any significant increase in absorption.

Servicing of commercial land along the major highway corridors will average 15 ha per year over 1988 to 1993.

4) Social Forecasts

Single family formations continue to occur at a more rapid rate than total family formation. In 1986, 15.14% of all families in Edmonton were single parent headed and by 1993 this proportion is expected to reach 17.2% of all families.

The divorce rate may see a short-term rise in response to legislative changes. The longer term expectation is for gradual increase in rate to 345 per 100,000 population by 1993.

The average age of the population is increasing. While nowhere near the proportion of total population experienced by other cities, Edmonton had 8.21% of its population in 1987 aged 65 and over. This percentage is expected to rise to 10.22% by 1993. Requirements for increased health and other services, as well as the recent increased political awareness and power of seniors makes this group an important one to watch in future.

The following tables provide detailed economic, population and land servicing forecasts for the period 1988-1993.

TABLE 1

SELECTED ECONOMIC FORECASTS, 1988-1993

	ACTUAL[1]		FORECAST [2]					
	1986	1987	1988	1989	1990	1991	1992	1993
NATIONAL AND ALBERTA								
Economic Growth Rate (%)								
Alberta (GDP)	1.1	1.0 (e)	3.0	3.0	3.5	4.0	3.0	3.0
Canada (GDP)	3.3	3.8 (e)	2.5	3.0	3.0	3.0	3.0	3.0
Prime Lending Rate (%)	10.5	9.5	9.5	9.25	9.0	8.75	8.5	8.5
Industrial Selling Prices (Canada)	0.9	2.1 (e)	4.2	4.1	4.2	4.4	4.9	5.0
Alberta Net Migration (000)	-17.9	-15.0 (e)	3.0	8.0	10.0	15.0	15.0	15.0
EDMONTON								
Population(000)	572	576	582	588	596	604	612	621
Unemployment Rate (%)	11.5	11.3	11.0	10.7	10.4	10.1	9.8	9.5
Inflation Rate (%)								
Consumer Prices	3.3	4.2	5.0	5.5	5.0	5.0	4.5	4.5
Average Weekly Earnings ($)	428	432 (e)	456	483	510	535	562	593
Vacancy Rate (%)								
Apartment (Oct.)	4.1	5.6	4.0	3.5	3.0	3.0	3.0	3.0
Downtown Office (Dec.)	18.5	16.4 (e)	18.4	16.3	14.3	12.3	10.3	8.3
Housing Starts (Units)	1,910	2,363	2,500	2,800	3,000	3,400	3,700	4,000
Building Permits (Current $ Millions) - Low	534	450	480	570	650	700	730	780
- High	-	-	580	670	750	800	830	880

SOURCES:

1 Statistics Canada, Alberta Bureau of Statistics, Bank of Canada, Canada Mortgage and Housing Corporation, Colliers Macaulay Nicolls Inc., and Edmonton Planning and Building Department

2 City Forecast Committee, January, 1988

(e) Estimate

TABLE 2

City of Edmonton
Projected Population by Age Groups

AGE GROUP	Actual 1987	1988	1989	1990	1991	1992	1993
0-4	47,000	47,000	47,000	47,000	46,000	45,000	45,000
5-9	38,000	40,000	42,000	44,000	45,000	46,000	47,000
10-14	34,000	34,000	36,000	37,000	39,000	40,000	42,000
15-19	40,000	37,000	36,000	35,000	35,000	37,000	37,000
20-24	64,000	63,000	60,000	59,000	58,000	57,000	56,000
25-29	70,000	68,000	65,000	62,000	59,000	56,000	55,000
30-34	59,000	62,000	63,000	64,000	60,000	63,000	61,000
35-39	44,000	47,000	49,000	51,000	54,000	56,000	59,000
40-44	33,000	35,000	37,000	41,000	44,000	46,000	49,000
45-49	28,000	28,000	28,000	28,000	28,000	30,000	32,000
50-54	26,000	25,000	26,000	26,000	27,000	28,000	28,000
55-59	25,000	24,000	24,000	23,000	22,000	23,000	22,000
60-64	21,000	22,000	23,000	24,000	25,000	25,000	25,000
65-69	17,000	18,000	19,000	20,000	20,000	21,000	22,000
70+	30,000	32,000	33,000	35,000	37,000	39,000	41,000
TOTAL	576,000	582,000	588,000	596,000	604,000	612,000	621,000
NET MIGRATION	-1,600	-200	1,000	2,400	3,100	4,300	4,300
NATURAL INCREASE	6,400	6,000	5,600	5,300	4,900	4,600	4,200

SOURCE: Planning and Building Department, January, 1988 (Rounded to nearest 1000).

TABLE 3

Edmonton 1988 Single Family

Residential Land Servicing - Privately Owned Land

Area Structure Plan	Forecasted Lots[1]
Riverbend	360
West Jasper Place	570
Meadows	100
Palisades	100
Kaskitayo	150
Lake District	260
Lewis Farms	50
Sub Total	1,580
Resubdivisions	145
Local Improvement	50
Total	1,785

SOURCE:

1 Planning and Building Department, November, 1987

TABLE 4

Edmonton Forecasted 1988-1993 Single Family

Residential Servicing Activity[1]

	ASP Single/Semi Housing Starts	ASP Single/Semi Lots Serviced[3]	ASP Single/Semi Serviced Lot Supply (rounded)[2]
Actual			
1987	2,156	1,799	4,650
Forecast			
1988	2,200	1,785	3,265
1989	2,500	2,800	3,565
1990	2,600	3,100	4,065
1991	2,900	3,400	4,565
1992	3,200	3,700	5,065
1993	3,400	3,700	5,365

SOURCES:

1 Planning and Building Department, November, 1987.

2 Servicing activity is assumed to maintain a minimum 1.4 year inventory.

3 Lots serviced are the number of lots covered by completed servicing agreements. These numbers may not correspond to the actual number of lots physically serviced in ASP areas for the year indicated.

TABLE 5

Edmonton Industrial and Commercial Land Servicing

	Industrial	Commercial	Total
Actual[1]	(ha)	(ha)	(ha)
1987	3	17	20
Forecast[2]			
1988-93[3] (per year)	5	15	20

SOURCES:

1 Planning and Building Department, January, 1988.

2 Planning and Building Department, January, 1988.

3 Assumes 20 ha serviced per year, distributed as 75% commercial, 25% industrial.

TABLE 6
Major Planned Projects in Edmonton
(Projects Exceeding $10 Million in Construction Costs)

Project	Estimated Costs[1] ($Millions)
Manulife Phase II	$85
Eatons Centre Phase II	67
Olympia & York Building	45
Glenrose Auxiliary Hospital	40
Canada Place	25
Northlands Coliseum Addition	23
Macdonald Hotel	17
Edmonton Journal Building	15
Misericordia Hospital Upgrading	15
Downtown Bay Store Renovation	13
Edmonton General Hospital Upgrading	12
Kingsway Garden Mall Bay Store	10

NOTE:

(1) For initial costs or costs of remaining phases.

SOURCES:

Planning and Building Department, List of Projects Estimated for 1988 and Beyond, January, 1988.